



OFFICE OF INSPECTOR GENERAL

WORK PLAN

FYs 2000 - 2001

Introduction

The mission of the Office of Inspector General (OIG) is to promote the efficient and effective use of taxpayer dollars in support of American education by providing independent and objective assistance to the Congress and the Secretary in assuring continuous improvement in program delivery, effectiveness, and integrity. OIG's strategic goals to achieve this mission are:

- Goal 1: OIG products and services are used by the Department of Education, Congress and other interested parties to improve the efficiency, effectiveness and integrity of education programs and operations. (Improvement)
- Goal 2: OIG's work discloses significant fraud, waste and abuse; results in enforcement and corrective actions; and promotes deterrence. (Compliance)
- Goal 3: Transform the OIG into a high performance organization which promotes productivity and a positive work environment. (High Performance)

The OIG fiscal years (FYs) 2000-2001 Work Plan operationalizes OIG goals 1 and 2. The Work Plan is a collaborative effort. Requests for input and suggestions for audits or other projects have been solicited from a number of interested parties including the OIG, the Department of Education, and Congress. Chart 1 below reflects these distributions.

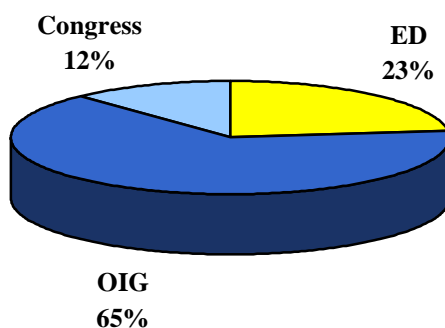


Chart 1

Chart 2 reflects the allocation of OIG staff resources.

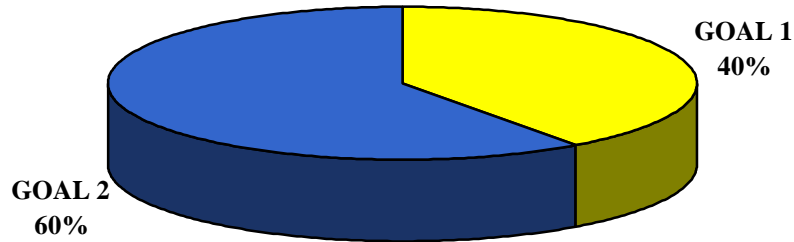


Chart 2

Because of the OIG's unique relationship with the Department and Congress, the OIG's mission and goals differ somewhat from the Department's. However, the OIG's mission and goals support the Department's mission, "to ensure equal access to education and to promote educational excellence throughout the nation." To accomplish its mission, the Department has four strategic goals.

1. Help all students reach challenging academic standards so that they are prepared for responsible citizenship, further learning, and productive employment.
2. Build a solid foundation for learning for all children.
3. Ensure access to postsecondary education and lifelong learning.
4. Make ED a high-performance organization by focusing on results, service quality, and customer satisfaction.

Our improvement efforts are intended to enhance the Department's programs and how they are managed, leading to better programs and improved educational performance. OIG's compliance efforts help to reduce abuse of the Department's programs, thus making more resources available to their intended beneficiaries.

Chart 3 shows how OIG will allocate its staff resources in FY 2000 in relation to the four Departmental goals. Chart 4 shows how OIG staff resources will be distributed in FY 2000 in relation to Education program and operation areas.

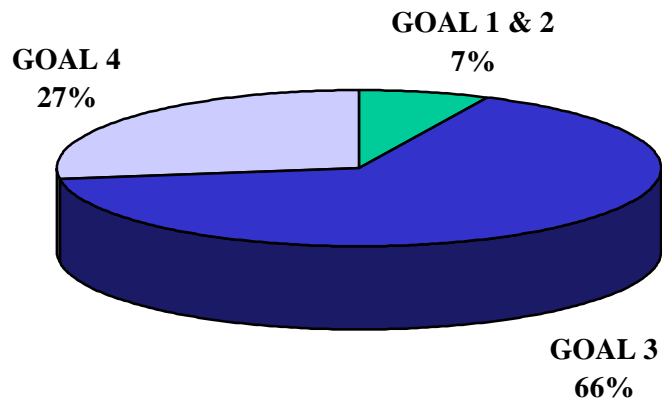


Chart 3

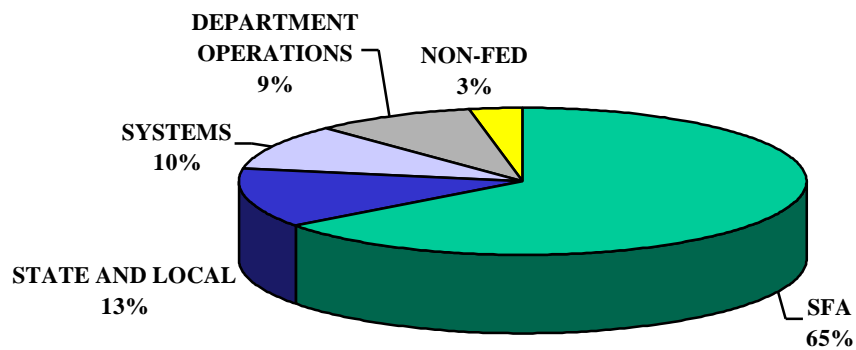


Chart 4

The following OIG Work Plan reflects how our work addresses each of the Department's four strategic goals. We have also cross-referenced the plan to reflect the OIG goals related to improvement and compliance. In both the Table of Contents and the individual write-ups, a (1) indicates OIG goal 1 work related to improvement. A (2) indicates OIG goal 2 work related to compliance.

Comments and suggestions on the OIG Work Plan are always welcome. The OIG Work Plan point of contact is Gerard Fahy. You may reach him at 202-205-5428 or at gerard_fahy@ed.gov. You may also download the plan through our website at <http://www.ed.gov/offices/OIG>.

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GOALS 1 & 2

Help all students reach challenging academic standards so that they are prepared for responsible citizenship, further learning, and productive employment.

&

Build a solid foundation for learning for all children.

ELEMENTARY AND SECONDARY PROGRAMS

Gun-Free Schools Act (1)

The Gun-Free Schools Act (GFSA) requires each state receiving federal funds under the Elementary and Secondary Education Act (ESEA) to have a state law requiring local educational agencies (LEAs) to expel from school for at least one year any student bringing a firearm to school. The state law also must authorize the LEAs chief administering officers to modify any such expulsion on a case-by-case basis. In addition, the GFSA states that it must be construed to be consistent with the Individuals with Disabilities Education Act.

Anticipated Objective

Determine the level of state and local educational agency compliance with the GFSA.

Safe and Drug Free Schools: Governors' Program (1)

The majority of funding for the Safe and Drug-Free Schools and Communities Program is granted to local educational agencies through state educational agencies. Twenty percent (approximately \$88 million) of the total allocation goes to state governors for discretionary grants or contracts. These grants and contracts are for parent groups, community action and job training agencies, community-based organizations, and other public entities and private nonprofit organizations.

Anticipated Objective

Determine if the Governors' Program is in compliance with applicable laws and regulations and whether the Governors' Program is coordinated with statewide agencies in their drug and violence prevention efforts.

Title VI – Innovative Education Program Strategies (1)

The Elementary and Secondary Education Act, Title VI, “Innovative Education Program Strategies”, supports state and local education reform efforts and improvements in such areas as instructional and media materials, and meeting the special education needs of at-risk and high cost students. Title VI (formerly Chapter 2), which the Office of Elementary and Secondary Education administers, is one of several block grant programs created under the Omnibus Budget Reconciliation Act of 1981. For FY 1999, Congress appropriated \$375 million for Title VI. According to a 1995 General Accounting Office report, “Block Grants: Characteristics, Experience, and Lessons Learned,” the 1981 block grants need to include a focus on accountability for results. The report also noted that funding allocations in these programs may be inequitable.

Anticipated Objectives

1. Perform a review of Title VI to identify further audit or other work.
2. Identify state funding allocation methods and major uses of program funds at the state and local levels.
3. Identify methods states use to evaluate program success.

Charter Schools Accountability for Results (1)

Through the Public Charter School Program (Elementary and Secondary Education Act, Title X, Part C), the federal government is encouraging the rapid expansion of the number of charter schools nationwide. Since these schools are eligible to participate in such federal programs as Title I, Part A, and Special Education, the federal investment may increase as the number of schools increases. This research project will provide information for determining the accountability of this federal investment.

Anticipated Objectives

1. Identify the types of systems states use to assess the accountability of their charter schools.
2. Based on this research project, determine whether additional audit or other work is necessary.

Contracts Between the Puerto Rico Department of Education and Sub-Recipients (1)

It is common practice for the Puerto Rico Department of Education (PRDE) to contract for services to assist in the administration and delivery of services for various Education programs. Our primary focus is to determine if adequate controls exist over servicers to protect federal government interests.

Anticipated Objectives

1. Determine whether servicers are adequately performing their duties in accordance with applicable laws, regulations, and contract terms.
2. Assess the effectiveness and efficiency of funds and cash management practices.
3. Determine whether PRDE or an independent public accountant hired by PRDE audited these contracts.

INTERAGENCY WORK GROUPS

Federal Work Group on Education Issues (1)

The Office of Inspector General is currently working on an interagency work group with Education's (ED) Office of Chief Financial Officer, Office of General Counsel, and various program offices. The Work Group also includes representatives from the Departments of Interior, Agriculture, Health and Human Services, and the Federal Emergency Management Agency on issues relating to the Trust Territories. The group is currently working on delinquent Single Audits, oversight issues, Year 2000 readiness, and other matters related to the Virgin Islands. We plan to continue the interagency dialogue to address a number of issues of common interest to ED and other federal agencies.

Anticipated Objective

Discuss and work to resolve a number of issues affecting ED and other federal agencies, and possibly participate on interagency audit teams that will perform audits on issues affecting multiple federal agencies.

**Education Office of Inspector General (ED-OIG)/State Auditors
Discussion Group (1)**

The purpose of this activity is to establish a group consisting of representatives from state audit agencies and ED-OIG to discuss issues of common concern. The group will address issues such as

- the extent to which states obtain reliable, accurate, and complete data in compliance with Government Performance Results Act requirements;
- the extent of state financial commitments to education programs, as required by various federal statutes (e.g., comparability, maintenance-of-effort, and supplement-not-supplant);
- the effectiveness of the Elementary and Secondary Education Act Title I;
- charter schools accountability issues; and
- the protection of federal and state interests in other areas.

Anticipated Objectives

1. Identify priority issues to be discussed with state audit agencies.
2. Identify interested state audit agencies to discuss identified issues with ED-OIG.
3. Establish the discussion group.

ADULT AND VOCATIONAL EDUCATION PROGRAMS
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Vocational Education (1)

Basic State Grants are intended to help states expand and improve their vocational education programs and provide equal access in vocational education to students with special needs. The ultimate goal of this program is to make the United States more competitive in the world economy by more fully developing the academic and occupational skills of all students. In FY 1999, Congress appropriated more than \$1 billion for Vocational Education Basic Grants. Reauthorization is scheduled for 2003.

Anticipated Objective

To identify issues for future audits or other work leading to an Office of Inspector General perspective paper for the 2003 reauthorization. Our work will include interviews with federal, state, and local officials.

HIGHER EDUCATION PROGRAMS

Higher Education Act TRIO Programs (1)

TRIO programs provide support services to low-income and first generation students to enhance their potential to enter and graduate from college. The TRIO programs include Upward Bound, Upward Bound/Math/Science, Veterans Upward Bound, Student Support Services, Talent Search, Educational Opportunity Centers, and the Ronald E. McNair Post-Baccalaureate Achievement Program. Higher Education Program staff within the Office of Postsecondary Education administer these programs. For FY 1999, Congress appropriated \$600 million for the TRIO Programs. Our primary focus is to assess the operations of the Department's TRIO programs to ensure that services provided to the targeted students enhance their potential for successfully completing their postsecondary education.

Anticipated Objectives

1. To determine the extent of the Department's monitoring and enforcement of the TRIO programs' compliance requirements.
2. To determine the elements of accountability for the spending of program funds and reporting of performance measures.
3. To determine if performance measures have been developed and are measurable.

INDIVIDUALS WITH DISABILITIES EDUCATION ACT

Individuals with Disabilities Education Act (IDEA), Part B – State Grant Program for Children with Disabilities (1)

The purposes of the Part B State Grant Program funded under IDEA are to (1) provide assistance to states in developing early intervention services for infants and toddlers with disabilities and their families, and to assure a free appropriate public education to all children and youth with disabilities; (2) assure that the rights of children and youth with disabilities from birth through age 21 and their families are protected; (3) assist states and localities in providing early intervention services and education to all children with disabilities; and (4) assess and assure the effectiveness of efforts to provide early intervention services and education to children with disabilities. In FY 1999, Congress appropriated \$4.3 billion. Reauthorization of IDEA is scheduled for 2002.

Anticipated Objective

To identify issues for future audits or other work leading to an Office of Inspector General perspective paper for the 2002 reauthorization. Our work will include interviews with federal, state, and local officials.

<p>GOAL 3</p> <p>Ensure access to postsecondary education and lifelong learning.</p>
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<p>STUDENT FINANCIAL ASSISTANCE PROGRAMS</p>

INSTITUTIONAL AUDITS

SCHOOLS (DOMESTIC)

Selected Postsecondary Institutions (2)

Changes in technology, education costs, and amendments to the Higher Education Act (HEA) continuously affect how schools operate and relate to their students. To help assure financial integrity in the student financial assistance programs, we will focus our school audits on emerging and systemic areas of noncompliance and potential abuse. As we identify issues we will coordinate with the Student Financial Assistance office, which is responsible for monitoring schools. After consultation, we will determine the best approach to identifying the extent of any abuses and any additional work necessary to assure the implementation of corrective actions.

Anticipated Objectives

1. Determine if selected schools are in compliance with current laws and regulations.
2. Alert the Department to any emerging and systemic areas of abuse and coordinate additional oversight work needed for corrective actions.

The Direct Loan School Reconciliation Process (2)

Reconciliation encompasses two activities that schools perform as part of regular Direct Loan processing: cash management and data matching. Reconciliation is important to the Department to ensure data accuracy. For year five of the Direct Loan program, the Department has initiated a new reconciliation process that eliminates loan-level data matching. Prior to this change in the reconciliation process, our audit work showed data

discrepancies between the various Direct Loan systems and the schools. Our audit will evaluate the effectiveness of the new direct loan reconciliation process.

Anticipated Objectives

1. Assess the effectiveness of the new reconciliation process.
2. Determine the extent of unreconciled loans and assess the potential effect on the program.
3. Determine loan-level data accuracy in the Direct Loan systems.

SCHOOLS (FOREIGN)

Loan Volume at Ineligible Schools/Default Rates at High Volume Schools **(2)**

Approximately 400 foreign schools did not submit recertification packages to the Institutional Participation and Oversight Service by the statutory deadline for recertification on July 23, 1997. As a result, these institutions ceased to be eligible institutions. Students enrolled before the institutions became ineligible may continue to receive loans. Students who enter an institution after it ceases to be eligible to participate in Title IV, however, cannot receive any Title IV funds. Loans to 40 foreign schools represented 80 percent of the approximate annual loan volume of \$180 million for all foreign schools.

Anticipated Objectives

1. Determine if ineligible foreign schools submitted loan applications.
2. Determine if guaranty agencies have controls to prevent ineligible foreign school from obtaining funds.
3. Determine if the data used to calculate foreign schools' cohort default rates are accurate.

GUARANTY AGENCIES

Federal Fund/Operating Fund Management (2)

The 1998 Amendments to the Higher Education Act (HEA) require each guaranty agency to establish a Federal Student Loan Reserve Fund (the Federal Fund) and an Operating Fund within 60 days of enactment. All funds, securities, and other liquid assets of the agency's reserve funds must be transferred to the Federal Fund. The HEA also requires guaranty agencies to deposit revenues from specified sources into the Federal Fund. Deposits into the Operating Fund are also specified, but the legislation stipulates that the Operating Fund is the property of the guaranty agency and not subject to regulation by the Secretary. If, however, the Operating Fund contains money transferred from the Federal Fund, it may be used only as permitted by the conflict-of-interest regulations, which prohibit certain uses of reserve funds. We will coordinate with the Student Financial Assistance office to select a sample of guaranty agencies for review.

Anticipated Objectives

1. Determine if the guaranty agencies have established and are maintaining the Federal Fund and Operating Fund in compliance with the 1998 Amendments.
2. Determine if guaranty agencies, whose Operating Funds contain money transferred from the Federal Fund, are in compliance with the conflict of interest regulations.
3. Assess the adequacy of the Department's oversight of the guaranty agencies whose Operating Funds contain money transferred from the Federal Fund.

Voluntary Flexible Agreements (2)

As authorized in the 1998 Amendments, as many as six guaranty agencies may enter into Voluntary Flexible Agreements (VFA) with the Secretary. A VFA is intended to enhance program integrity, increase cost efficiencies, and improve the availability and delivery of student financial aid. Each VFA will be developed with the Secretary on a case-by-case-basis and may include a wide range of provisions.

Anticipated Objectives

1. Determine if the guaranty agency is monitoring the anticipated goal of each proposal.
2. Assess the adequacy of the Department's oversight of the Voluntary Flexible Agreements.

Blanket Certificate of Loan Guaranty (2)

The 1998 Amendments authorized a pilot program for fiscal years 1999 and 2000 which permits a limited number of guaranty agencies to offer blanket certificates of guaranty. These certificates will allow a lender to disburse loan proceeds prior to submitting loan data to the guaranty agency. If subsequent information indicates that the borrower was ineligible for a loan, the lender would follow regulations requiring compliance with the terms of a final demand letter. When a borrower fails to comply, the lender would treat the entire loan as in default.

Anticipated Objectives

1. Determine the effectiveness of the Department's review and oversight of the Blanket Certificate pilot.
2. Determine if there are sufficient controls to minimize the disbursement of loans to ineligible students.

LENDERS/SERVICERS

Department's Oversight of Interest and Special Allowance (1)

The Department pays interest and special allowance to participating Federal Family Education Loan Program lenders. It performs reviews to ensure the accuracy of the interest and special allowance billed by selected lenders. The Department also provides assistance to lenders to enable them to properly bill for interest and special allowance.

Anticipated Objectives

1. Determine the effectiveness of the Department's review and oversight of lenders.
2. Determine the appropriateness of interest and special allowance billings for a sample of lenders.

Interest and Special Allowance/Multiple Servicers (1)

Although many large Federal Family Education Loan Program participating lenders use multiple servicers for their loan portfolios, the lender is responsible for submitting interest and special allowance billings (Form 799) to the Department. Lenders using

multiple servicers must collate data they receive from each servicer to submit their interest and special allowance billings.

Anticipated Objectives

1. Determine if selected lenders using multiple servicers are properly billing the Department.
2. Determine if a substantial risk exists to the Department due to lenders use of multiple servicers.

Selected Lenders' Internal Controls Over Due Diligence (1)

Holders of Federal Family Education Loan Program loans must perform prescribed due diligence activities when collecting on those loans for the loans to maintain their federal loan guarantee. The due diligence procedures are prescribed in regulation and require lenders to engage in a specified number of diligent efforts to contact the borrower during the 11th through the 270th day of delinquency. There are more than 5,000 lenders, many of who use large servicers that perform the due diligence requirements.

Anticipated Objective

Determine if selected lenders and servicers are in compliance with Title IV program due diligence requirements.

Accreditation Organizations (1)

Accreditation has two fundamental purposes: (1) to assure the quality of education provided by an institution or program, and (2) to assist in the improvement of the institution or program. Institutional accrediting bodies accredit the institution as a whole. A specialized accrediting agency accredits specific programs within an institution of higher education.

Regulations establish procedures and criteria for the Secretary's recognition process in order for accrediting bodies to be considered authorities on the quality of education. The Council on Higher Education Accreditation (CHEA), a non-governmental coordinating agency, also recognizes accreditation bodies. The Department and CHEA each recognize about 70 accreditation agencies. In many cases CHEA and the Department recognize the same bodies.

Anticipated Objectives

1. Determine if the criteria that CHEA uses to evaluate accreditation bodies differ from the criteria the Department uses.
2. Identify the number of Title IV institutions and programs that each accreditation body decertified, and the circumstances surrounding each decertification to determine if there are similarities.
3. Determine if the institutions which the accreditation bodies have selected and the Department approved, are improving.

STUDENT FINANCIAL ASSISTANCE PERFORMANCE PLAN

Performance Plan (2)

The 1998 Amendments to the Higher Education Act created a performance-based organization (PBO) responsible for managing the operational functions supporting the programs authorized under Title IV. A primary purpose of the PBO is to improve service while reducing costs and increasing accountability. The legislation states that each year the Secretary and the Chief Operating Officer of the PBO shall agree on and make public a PBO performance plan for the succeeding five years that establishes measurable goals and objectives. In response to the legislation, the Department designated the Office of Student Financial Assistance, formerly within the Office of Postsecondary Education, as the PBO.

Anticipated Objective

Determine if controls are adequate to ensure that data are reliable and valid.

DISTANCE LEARNING

Management Controls Over Distance Learning (2)

Increased access to advanced communications technology, specifically on the Internet, has given rise to the rapid expansion of distance education. Distance education allows individuals to obtain education without the constraints of time or location posed by traditional residential postsecondary education. It also provides the potential for institutions to increase their student enrollment significantly through recruitment nationwide. The Higher Education Act (HEA), however, restricts the use of federal financial aid funds for distance learning. Congress recently amended the HEA in October 1998 to include a demonstration program for distance learning including waivers of provisions that have restricted federal financial aid.

Anticipated Objectives

1. Determine if the Department has instituted management controls to gather statistics and provide oversight of the growth of distance education and the amount of federal financial aid funds provided to support these programs.
2. Assess whether current regulations are adequate to address the uniqueness of distance education.
3. Determine whether accrediting agencies are amending their standards to address the uniqueness of distance education.
4. Assess accrediting agencies' plans for effectively monitoring the potential rapid growth of distance education.
5. Evaluate whether the appropriate cost-of-attendance elements are being used in the needs analysis for students participating in distance education for future legislative changes.

DEFAULT MANAGEMENT

Definition Change of Default from 180 to 270 Days (1)

The 1998 Amendments to the Higher Education Act changed the definition of default from a delinquency that has persisted for 180 days to a delinquency of 270 days. The

intent of the legislative change was to reduce defaults and thereby reduce reinsurance claims. This change will affect the formula the Department uses to calculate a school's default rate by reducing the number of borrowers defaulting in a two-year cohort period (the numerator). The number of borrowers who entered repayment (the denominator), however, will remain the same.

Anticipated Objectives

1. Determine the effect of the legislation on default prevention.
2. Determine the effect on the amount of reinsurance claims paid on defaults.

Default Aversion by Guaranty Agencies (1)

The Higher Education Act authorizes the payment of a one-percent default-aversion fee to a guaranty agency if the agency is able to prevent a borrower default. The agency will be permitted to transfer the default aversion fee from the Federal Fund to the Operating Fund in response to a lender's request for default aversion on that loan. The fee must be equal to the net amount of one percent of the unpaid principal and accrued interest on the loans at the time the request was submitted, minus one percent of the unpaid principal and accrued interest owed by the borrowers on default claims paid by the agency during the same time period for which the fees are transferred.

Anticipated Objectives

1. Determine the effectiveness of the default-aversion procedures guaranty agencies use to reduce defaults.
2. Assess the effect of the formula on the guaranty agency Operating Fund.

Default Prevention Methods the Most Effective Lenders Use(1)

Lenders are able to provide borrowers with several default prevention options. These include deferments, forbearance, income-sensitive repayment, and Direct Loan consolidation with Income Contingent Repayment (ICR). As more emphasis is placed on default reduction, lenders have been encouraged to augment due diligence requirements with innovative practices.

Anticipated Objective

Identify best default prevention practices.

CONTRACTOR REVIEW

Selected Student Financial Assistance Contractors (1)

Student Financial Assistance (SFA) has responsibility for overseeing more than \$300 million in contracts involving a dozen major contractors who deliver funds to intended recipients and collect and store data that SFA uses to help manage its programs. Our reviews will focus on the effectiveness of SFA's oversight of these contracts. The objectives of these reviews are to evaluate selected SFA contracts, including the monitoring efforts and contractor performance.

Anticipated Objectives

1. Determine the effectiveness of oversight of selected SFA contracts by the contracting office technical representative and the contract officer to ensure that deliverables are met.
2. Determine the accuracy and reasonableness of costs incurred for products and services provided.
3. Determine if contractually required deliverables have been fulfilled.

Access America for Students (1)

The mission of Access America for Students is to provide secure electronic access to a range of information and services targeted to students and to improve the student financial assistance delivery. It is an important facet in the Department's modernization plan for student aid delivery.

In addition to the Department of Education (ED), this initiative includes participation by the Departments of Veterans Affairs, Labor, Justice, Treasury; the Social Security Administration, the U.S. Postal Service, and the Corporation for National Service (AmeriCorps). Initially, we will test the following ED student financial aid programs: Federal Direct Loan Program, Federal Family Education Loan Program, and Federal Pell Grant program. We will conduct the first phase of the pilot in the 1999-2000 award year, which will include approximately six schools. This phase will include participation by schools and lending institutions. We will provide our review on front-end controls during phase one to provide input to the Department prior to phase two expansion of the project.

Anticipated Objectives

1. Determine whether appropriate controls are in place at the Department and pilot schools to safeguard federal funds and ensure data reliability.
2. Provide the Department advice and assistance on the adequacy of controls used during the pilot project to provide the opportunity for corrective actions, if necessary.
3. Assess cost estimate against actual costs and evaluate future cost projections.

PROGRAM INTEGRITY

Application Verification Process (2)

To establish Title IV student financial assistance eligibility, students provide financial and demographic data for the calculation of factors that directly impact the student financial assistance availability. The Department's contractor selects student applicants for institutional verification based on 32 to 36 unique formula-based criteria. When a participating institution is notified of a student selection for verification, it must validate specific data items and instruct the student to update incorrect data identified as a result of this verification process.

Anticipated Objectives

1. Determine selection-criteria effectiveness in identifying student applicants for institutional verification.
2. Determine whether selection-criteria revisions for the student applicant verification process will result in improved detection of inaccurate student application statements.
3. Determine if there are schools with unusual patterns of changes subsequent to verification correction for on-site reviews.

Citizenship Matches (2)

The Higher Education Act and program regulations specify the categories of non-citizen applicants who are eligible for federal financial aid. A Department contractor processes student applications and initially screens them for applicant eligibility. The contractor matches certain applicant-provided data against databases at four agencies. The Department attempts to confirm eligible citizenship status through two matches with the Immigration and Nationalization Service (INS) and Social Security Administration (SSA). A potential issue may arise if the INS flags too many records. This would increase the burden on students, schools, the Department, and the INS due to the manual process used to confirm citizenship status and financial aid eligibility.

Anticipated Objectives

1. Determine if student aid has been provided to ineligible non-citizens whose student aid reports were flagged as a result of the SSA match.
2. Determine if the INS match is flagging an excessive number of eligible non-citizens and creating unnecessary burdens on students, schools, the Department, and the INS.

Financial Responsibility (2)

A school must demonstrate that it is financially responsible to participate in the programs. Revised financial responsibility regulations became effective on July 1, 1998, establishing a ratio methodology that provides a comprehensive measure to assess financial responsibility. Schools are required to submit audited financial statements annually, and additional documentation as necessary for the Department to determine financial responsibility. For example, regulations require additional information on related party transactions in the notes to the financial statements than is required by Generally Accepted Accounting Principles. Financial statements are due six months after the end of a school's fiscal year, therefore 1999 was the first calendar year the Department assessed financial responsibility in accordance with the new regulations.

Anticipated Objectives

1. Determine the adequacy of supporting documentation requested by the Department, in addition to the financial statements, to thoroughly assess financial responsibility.
2. Assess if the Department has established effective controls and procedures to evaluate compliance with, and enforce the new regulatory ratio methodology.

Accrediting Agencies (2)

The 1992 Higher Education Act (HEA) amendments require accrediting agencies to develop appropriate performance standards to assess and hold member schools accountable for student achievement, such as completion, placement, and State licensing examination rates. A 1994 OIG review revealed that the agencies: (1) had not developed quantitative performance standards on student achievement to assess institutional performance, (2) had not removed the accreditation of schools that failed to meet existing standards, and (3) did not verify performance data that was collected. A Department-contracted 1998 report, as a result of the 1994 OIG reviews, reported that accrediting agencies had developed a wide range of standards, including both qualitative and quantitative standards.

Anticipated Objectives

1. Assess controls the Department has implemented to determine if accrediting agencies are holding their member schools accountable to their established standards.
2. Assess controls at selected accrediting agencies to assure the accuracy of reported performance standards and enforcement of compliance with their standards.

Ability-to-Benefit Test Publisher's Student Retesting Practices (2)

Effective July 1, 1996 there were new regulatory requirements for administration, scoring, and approval of tests used to measure a student's skills and abilities. The ability-to-benefit tests are used to determine student eligibility for Title IV student financial assistance. Eight different ATB tests, which are published and administered by four different publishers, have been approved by the Department for ATB testing. The Department has established test application and approval procedures. Since the ATB regulations also waive institutional liabilities resulting from improperly administered ATB tests, there appears to be little if any incentive for ATB test administrators to comply with test administration requirements.

Anticipated Objectives

1. Determine and evaluate the effectiveness of Departmental and test-publisher controls for ATB test-administration oversight.
2. Determine if student aid was awarded to students who were given passing ATB grades and tested out of compliance with test-publisher procedures and practices.

Disability and Death Discharge Provisions (2)

In a recent audit we concluded that student loans are being discharged (forgiven) for total and permanent disability and death, even though the borrowers are apparently not deceased or totally and permanently disabled. Over a 30-month period ending December 1996, Federal Family Education Loan Program loans totaling more than \$500 million were discharged for borrowers claiming total or permanent disability (57 percent), or for borrowers who died (43 percent). After matching these borrowers against Social Security Administration master earnings records or the National Student Loan Data System, we identified nearly 17,000 borrowers with discharged loans that were either working or had returned to school, including more than 700 whose loans were discharged due to false death claims.

Anticipated Objectives

1. Conduct joint audits/investigations of selected entities to determine if there is a pattern of abuse of the discharge provisions for disability and death by schools, guaranty agencies, and doctors.
2. Identify and recommend action against entities and individual borrowers to include, at a minimum, recovering funds owed the federal government due to inappropriate or fraudulent discharges.
3. Determine whether a revision of law or regulations is necessary and appropriate to permit loan reinstatement of totally and permanently disabled individuals while enabling them to return to school or become gainfully employed.

INVESTIGATIONS

Postsecondary School Activity (2)

We plan to conduct criminal and/or civil investigations of occupational, vocational, trade, and technical schools that are alleged to be defrauding the federal financial aid programs. We have identified certain trends in school frauds that include failure to refund tuition money, falsification of documents for eligibility purposes, cohort default manipulation, false statements to circumvent compliance with 85/15 (now 90/10), embezzlements, and falsified student aid applications. We will continue to identify patterns of alleged fraud and abuse and recommend the need for added controls or other changes in the way the programs are administered to protect student and taxpayer interests.

Discharge of Student Loans Due to Death and Disability (2)

A recent Office of Inspector General audit identified abuse in the discharge of student loans for death and disability. A match between Education's database of discharged borrowers and the Social Security Administration's master earnings records identified a number of loan recipients whose loans were discharged due to death or disability, but who later had earned wages. A match against the National Student Loan Data System found that many borrowers with discharged loans had subsequent Federal Family Education Loan borrowing activity.

By working with the Department and guaranty agencies, we expect to identify borrowers who received loan discharges due to death or total and permanent disability, but who have earned wages after their discharge or who have received additional federal student aid. Using this data, we expect to develop a list of borrowers who may have falsely claimed disability or death. If it is determined that these borrowers are not dead or disabled, we will seek prosecution of these borrowers and have their discharged loans reaffirmed. We will also attempt to identify patterns of fraud.

We anticipate that the investigation results could be used to illustrate the potential for abuse, and assist the Department with changing loan discharge regulations. Results could also be used to justify reinstating the requirement that borrowers reaffirm discharged loans before receiving additional federal student loans.

Foreign School Federal Family Education Loan Activity (2)

Our efforts to identify and investigate Federal Family Education Loan (FFEL) borrowers who have received funds by falsely claiming foreign school enrollment continue. To date, we have opened 50 criminal investigations of suspected individuals and groups alleged to be perpetrating this type of fraud. We will continue to identify other possible fraudulent loan disbursements by examining FFEL activity at schools in Mexico and the Caribbean.

Financial Aid Consultants (2)

The Office of Inspector General has experienced an increase in the number of investigations of individuals working as "financial aid consultants." Legitimate financial aid consultants provide assistance to students and their parents applying for federal financial aid funds. Frequently, they help prepare Free Applications for Student Financial Aid (FAFSAs) and provide guidance on various non-federal scholarship programs.

The OIG has identified at least 16 consultants who assisted students and their parents in obtaining federal financial aid funds fraudulently. Typically, these consultants complete FAFSAs that understate parental income, misstate parental marital status, falsify independent/dependent student status, and inflate the number of family members enrolled in college. The consultants have also been known to prepare false tax returns for submission to colleges and universities in support of fraudulent FAFSAs. Our objective is to continue identifying students and their families who fraudulently receive federal financial aid funds, and the consultants they are using to falsify their FAFSA applications. As appropriate, we will also make referrals for criminal and/or civil prosecution.

Scholarship Activity (2)

We plan on working with the Federal Trade Commission (FTC) to develop investigative leads against individuals who operate as “financial aid counselors,” promising students and their families a certain amount of financial aid for a fee. Recently, complaints have surfaced concerning businesses that purport to provide services that will assist students and parents alike in obtaining student financial aid, when in actuality the services provided are nothing more than what a student advisor or counselor would provide for free.

The FTC has identified such fraudulent activity in the past, but each case involved private non-federal scholarship money. During the past year, the FTC has identified self-professed “federally certified” counselors traveling around the country holding high-priced seminars to assist parents and students in completing Free Applications for Student Financial Aid, again promising “guaranteed” aid. The “seminars” can be misleading and potentially fraudulent, based on the information provided or direction given to circumvent Education’s rules and regulations. We believe that this joint effort with the FTC will lead to student financial aid consultant-type criminal and civil work similar to the project described above. Our overall goal is to ensure Education funds are not being improperly obtained or used.

Computer-Related Crimes (2)

The rapid growth and use of the Internet has provided OIG Investigations with new and emerging investigative challenges. We will prepare to respond to criminal acts such as network intrusion, electronic identity theft, false electronic signatures, and cyber terrorism.

We will continue efforts to deter, detect, and investigate individuals and institutions using electronic data systems to facilitate financial fraud. We will continue to facilitate efforts with organizations such as the National Infrastructure Protection Center, the Critical Infrastructure Assurance Office, the Federal Computer Emergency Response Team, the

Department's Chief Information Office, and the Federal Agencies Computer Victim Work Group.

We recognize that many students now apply and submit Free Applications for Student Aid via the Internet. Future case activity will address unauthorized electronic disbursement and breaches in security measures.

Federal Family Education Loan Servicing Activity (2)

We have several noteworthy investigations of loan servicing companies that engaged in fraudulent due diligence and collection activity. We settled a case in Florida where a \$30 million settlement was paid and a similar case was recently filed in Chicago for \$60 million. We currently have pending cases in Massachusetts, Illinois, and Texas. Our relations with the Department's loan-collection division and the guaranty agencies will assist us in identifying other servicers for review. We will continue to devote significant resources to ongoing investigations of companies allegedly engaged in fraudulent loan-servicing activities.

Pell Recipient (2)

We are initiating proactive investigative activities to identify student beneficiaries and parents who have allegedly fraudulently reported their income or assets on their Free Applications for Student Aid (FAFSA). A recent Office of Inspector General-initiated match with the Internal Revenue Service (IRS) found a significant number of differences between income amounts reported on individual FAFSAs and corresponding incomes reported to the IRS. The analysis we are doing will identify individuals who appear to have substantial resources, but who are receiving Pell grants and other need-based federal student assistance. We are using public records and other data matches to target potential abusers. This work may help identify additional potential financial-aid consultant-type fraud cases as well.

GOAL 4

Make ED a high-performance organization by focusing on results, service quality, and customer satisfaction.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY MANAGEMENT

Framework for Information Technology Architecture (1)

The Clinger-Cohen Act of 1996 (CCA) required the Department to develop and implement a sound and integrated information technology architecture. An information technology architecture provides an integrated framework for acquiring and maintaining information technology to achieve the Department's strategic goals. In March 1998, we reported that the Department had not yet complied with the CCA's requirements for an architecture. Since the issuance of our report, the Chief Information Officer has initiated the development of an information technology architecture. Additionally, the Office of Student Financial Assistance has been established as a Performance Based Organization (PBO), and has announced plans for development of its own information technology architecture and Office of Chief Information Officer.

Anticipated Objectives

1. Determine that the Department and the PBO have developed and implemented their Information Technology Architecture(s) in compliance with the CCA.
2. Determine that the architecture(s) comply with guidance issued by Office of Management and Budget.
3. Determine that the architectures (if separate) are compatible.

Information Technology Investment Review Process (1)

The Clinger-Cohen Act of 1996 (CCA) requires executive agencies to significantly improve the management of their information systems.

As an initial step towards compliance with the CCA, the Secretary created the Information Technology Investment Review Board (ITIRB) to adopt capital planning

processes and control processes for making Information Technology (IT) investment decisions. The Board consists of senior management officials who evaluate new IT acquisitions and the progress of ongoing IT initiatives. Student Financial Assistance (SFA) is in the process of establishing its own Investment Review Board (IRB) to manage its IT investments.

Anticipated Objectives

1. Assess ED's Clinger-Cohen Act implementation progress within the Office of Chief Information Officer and SFA.
2. Evaluate ED ITIRB's role and SFA IRB's role in recent information technology investment decisions.
3. Assess the adequacy of coordination between the ED and SFA IT review boards.

Electronic Records Management (1)

Federal regulations established requirements for the creation, maintenance, use and disposition of electronic records. The Office of Management and Budget has also included records management in its Circular A-130 on information resources management. A recent amendment to the Freedom of Information Act requires that agencies make records created on or after November 1, 1996 available electronically.

Anticipated Objectives

1. Determine whether Education has established adequate policies and procedures for electronic records.
2. Identify possible enhancements to electronic records management.

YEAR 2000 READINESS

Year 2000 Transition (1)

Education (ED) has mitigated its Year 2000 (Y2K) risks using the five-stage process recommended by the General Accounting Office, and reports that all 175 of its systems, including 14 mission-critical systems, successfully completed the implementation phase. ED must continue its efforts to prepare for the Year 2000, and will need to identify and respond to unexpected Y2K-related failures of its own systems and more likely those of its trading partners. The Office of Inspector General will monitor the final stages of ED's Y2K project and the actual transition from 1999 to 2000.

Anticipated Objectives

Monitor and assess ED's efforts to:

1. Complete necessary actions to mitigate potential Y2K risks, including those related to external trading partners, contingency planning, and implementation of new systems.
2. Identify and respond to potential Y2K-related failures of its internal systems.
3. Identify and respond to potential Y2K-related failures at trading partners, including steps taken to protect federal funds.

Potential Year 2000 -Related Systems Failures (1)

Education has mitigated its Year 2000 (Y2K) risks using the five-stage process recommended by the General Accounting Office, and reports that all 175 of its systems, including 14 mission-critical systems, have successfully completed the implementation phase. Despite this progress, a potential risk remains that Y2K may cause some of ED's internal systems to fail or not operate properly. If a failure should occur, ED must execute applicable contingency plans until corrections are made. The alternative processes used during this contingency period may result in increased risks to the Department's programs.

Anticipated Objectives

OIG will monitor and assist the Department's response to specific internal systems failures caused by the Y2K issue, if any occur. Specific objectives may include:

1. Monitor progress made by ED and its contractors to identify and correct the cause of specific Y2K-related internal systems failures should any occur, and provide feedback to ED management.
2. Monitor the execution of contingency plans to ensure that ED is identifying and mitigating associated risks, and provide recommendations as appropriate.

Year 2000-Related Experiences at Selected External Trading Partners (1)

The Department relies on guaranty agencies, commercial lenders, schools, states and local governments to deliver federal funds to recipients and provide educational, financial, and student information. Year 2000 (Y2K)-related system failures at these external entities could affect their ability to administer Education (ED) programs and put federal funds at risk. Education has developed contingency plans to continue distribution of funds to external trading partners if they experience Y2K-related systems failures. It is

important that these entities promptly correct Y2K systems failures, if any occur, and maintain accountability for all Department funds.

Anticipated Objectives

The Office of Inspector General will perform steps to achieve the following objectives at selected trading partners should they experience a Y2K-related systems failure.

1. Review Y2K project documentation and assess whether the selected entity took reasonable steps to mitigate Y2K risks.
2. Determine whether the selected entity has developed an adequate plan to identify and correct ongoing Y2K-related systems failures.
3. Determine whether the selected entity maintains accountability for ED funds despite Y2K-related systems failures.
4. Assess the level of risk, including potential fraud, associated with continued delivery of ED funds.

SYSTEMS SECURITY

Presidential Decision Directive – 63, “Critical Infrastructure Protection” **(1)**

Presidential Decision Directive (PDD)-63 calls for a national effort to assure the security of the increasingly vulnerable and interconnected infrastructures of the United States. Such infrastructures include telecommunications, banking and finance, energy, transportation, and essential government services. The directive requires immediate government action including risk assessment and planning to reduce exposure to attack. It stresses the critical importance of cooperation between the government and the private sector by linking designated agencies with private sector representatives. The President’s Council on Integrity and Efficiency has proposed a multi-Department PDD-63 review in which the Office of Inspector General plans to participate.

Anticipated Objective

Determine the Department’s compliance with PDD-63 and provide recommendations as appropriate.

Periodic Security Risk Assessments and System Security Policy (1)

The Department (ED) allows database access to employees, financial aid directors, contractors, and potentially individuals with defaulted student loans. Allowing defaulters to access ED databases may pose a security risk and jeopardize the integrity of the loan database. Additionally, recent news events illustrate the dangers of computer viruses and system intrusions, and illustrates our need to safeguard Department databases against their attacks. Furthermore, a risk assessment is required to allow the development of a comprehensive system security policy to ensure the integrity and reliability of ED databases and operating systems.

Anticipated Objective

Determine the adequacy of the Office of Chief Information Officer's

1. security risk analysis,
2. resources and timetables required to address security concerns,
3. policies and practices for establishing data access rights and managing data access controls, and
4. intrusion detection plans (i.e., prevention, recovery and safeguarding of data).

System Vulnerability (1)

The Internet has become a powerful resource for the general public, private industry, and the federal government. The Department (ED) utilizes Internet technology to facilitate many aspects of program administration and delivery. It also maintains other points of external access for its mission critical systems. Testing helps discover weaknesses in the configuration and use of network system and Internet-based technology. It also helps to identify and mitigate exposures to a range of potential attacks from both outside and inside the processing environment. Our efforts will build upon work presently being performed by the General Accounting Office.

Anticipated Objective

Assess the vulnerability of selected ED critical systems to unauthorized access and provide recommendations as appropriate.

STUDENT FINANCIAL ASSISTANCE INFORMATION TECHNOLOGY SYSTEM DEVELOPMENT

Contract Performance Oversight, Consolidated Data Center (1)

The Student Financial Assistance Consolidated Data Center in Meriden, Connecticut, represents a new type of Department contracting in that contractors are selected through the General Services Administration (GSA), while Education (ED) services are selected from a standardized GSA schedule. GSA is responsible for enforcement of contract terms, rather than Education's own contracting officers and related staff.

The Consolidated Data Center will perform data storage and processing for all Student Financial Assistance systems. ED reports that five of eight computer systems have successfully migrated to the Consolidated Data Center. Additional systems will migrate by November 1999, and the remaining system will migrate in the mid-2000s.

Anticipated Objectives

1. Determine whether contractor performance is in accordance with contract terms.
2. Evaluate the appropriateness of changes made to contract orders.
3. Determine the effectiveness of performance monitoring by ED and GSA staff to assure adequacy of controls and procedures.
4. Assess the cost effectiveness of consolidating computer operations at the Consolidated Data Center.

Student Financial Assistance Modernization Blueprint (1)

Student Financial Assistance (SFA) is in the early stages of implementing its systems modernization blueprint designed to streamline and move the student financial aid system into the next century. The Blueprint describes the future business requirements, business and technical architecture and sequencing plan that SFA plans to use to transform the financial aid system. The Modernization Blueprint emphasizes the use of leading edge technology, including the use of the Internet, middleware (enables non-compatible systems to communicate with each other), and security/privacy tools. SFA projects that it will complete the first phase of this modernization in 18 months.

Anticipated Objectives

1. Monitor the development and implementation of the Blueprint to determine whether SFA systems' development policies and procedures are consistent with general industry standards and practices.
2. Determine the risks associated with SFA's plans.
3. Provide recommendations, as appropriate, for improvement in the implementation of, and revisions to the Blueprint.

Coordination of Student Financial Assistance Information Technology System Development (1)

The Congress has designated the Office of Student Financial Assistance (SFA) as a Performance Based Organization (PBO). A PBO seeks to enhance government services through increased flexibility and performance incentives in exchange for greater accountability for results. SFA has been reorganized as a principal office, led by a Chief Operating Officer who reports directly to the Secretary. SFA is in the process of establishing its own Office of the Chief Information Officer (OCIO) and Office of the Chief Financial Officer (OCFO).

Anticipated Objective

Determine whether there is adequate coordination between appropriate offices within the PBO, such as the OCIO and OCFO, as well as any other appropriate offices within the Department, with regard to SFA Information Technology (IT) system development issues including IT architecture, IT budgeting and planning, and IT procurement.

Internet-Based Business Transactions Between Student Financial Assistance and Postsecondary Institutions (1)

To accommodate accurate and timely access to student level information, an Student Financial Assistance (SFA) goal is to streamline the aid process by facilitating paperless interaction between SFA and schools. The plan for streamlining includes (1) providing Free Applications for Student Financial Aid, Student Aid Report, and cohort default information online; (2) automated enrollment verification; (3) online student account information to track enrollment; and (4) online disbursement and repayment transaction information to facilitate direct transfer of aid from lenders to schools. Other plans include the implementation of electronic signature technology to eliminate paper processing of critical financial aid forms and promissory notes.

Anticipated Objectives

1. Determine what the elements of risk are to implementing the proposed measures, particularly with regard to potential fraud by postsecondary institutions.
2. Provide recommendations to mitigate potential risks.
3. Assess whether the level of risk is offset by taxpayer savings and/or increased efficiency in the process.

INFORMATION TECHNOLOGY SYSTEM CONTROLS

Education's Central Automated Processing System's UNIX Operating System and Oracle Database (I)

During early fiscal year (FY) 1997, we performed a security assessment of the Department's Central Automated Processing System's (EDCAPS) UNIX operating system and Oracle database management system. The follow-up review will focus on corrective actions implemented to address risks identified in 1997.

Anticipated Objective

Evaluate the extent that the EDCAPS development team has implemented recommendations presented in our FY 1997 review of critical controls over the UNIX operating system and the Oracle database.

Disaster Recovery and Backup Plans for Selected Information Technology Systems (I)

Disaster recovery plan (DRP) reviews are designed to assess an organization's ability to continue operations in the event of a disaster or system malfunction. Assessment procedures include the evaluation of backup and recovery procedures, offsite storage, protection against fire, theft, water damage, and agreements with alternate processing facilities. Assessing the adequacy of DRPs is necessary to ensure that Education Information Technology (IT) processing systems can restore and recover critical system processes in the event of a disaster.

Anticipated Objectives

1. Determine whether IT system disaster recovery and backup plans are complete and comprehensive in their content and up-to-date, e.g., whether personnel contacts are current.
2. Determine the adequacy of DRP test results.
3. Determine whether the Department has addressed test deficiencies.

Specific Management Controls in Education's (ED) Information Technology (IT) Systems (Education Central Automated Processing System, EDNET and Student Financial Assistance) (I)

The Department (ED) has increasingly taken advantage of its automated systems. The Department's major Information Technology (IT) systems process financial management and program information to help Department managers and staff summarize decision-making information. Interruption of LAN services to include database access, E-mail access, and Internet access would have an immediate and profound effect on the Department's productivity. Strong internal controls within IT systems are necessary to maintain data integrity and ensure interruption of services does not occur. Although systems development projects are designed with strong management controls, system enhancements and modifications to existing projects can neutralize the effectiveness of controls over time.

Anticipated Objectives

1. Determine whether the selected system's data origination, input processes, data processing, and output processes are working efficiently and effectively.
2. Identify application control strengths and assess the adequacy of specific management controls within specified IT systems.
3. Determine the impact of identified control weaknesses upon data integrity and reliability.

Identification of Potential Control Weaknesses and Program Inefficiencies Within Selected Department of Education Programs Using Computer-Assisted Audit Techniques (1)

The Department uses mini-computer, mainframe, and file server computer systems to help it administer its many benefit programs. The information maintained on these systems is mainly financial in nature, but also includes unique identifiers and demographic information that program officials can use to detect program inefficiencies and identify unusual trends. Though many Department programs perform some level of data analysis, an independent study of the Department's critical systems can provide useful, value-added information to program managers.

Anticipated Objective

Identify potential program inefficiencies, control weaknesses, and fraud through computer analysis of system-generated data files for selected ED programs.

FINANCIAL MANAGEMENT

Department-wide Annual Financial Statement Audit (1)

Each year, in compliance with the Government Management Reform Act, the Office of Inspector General (OIG) will oversee the annual audit of the Department-wide financial statements that an independent public accountant will perform on behalf of the OIG.

Anticipated Objectives

1. Provide an opinion on whether the Department-wide financial statements are fairly presented in all material respects.
2. Report on internal controls that are intended to ensure that transactions are properly recorded to permit the preparation of reliable financial statements; maintain accountability for safeguarding of assets; and ensure that data supporting performance measures are properly recorded.
3. Report on compliance with laws and regulations that could have a direct and material effect on the financial statements.

Financial-Related Audits and Reviews (1)

We will conduct reviews, as necessary, to follow-up on financial related issues and control weaknesses discovered through the annual financial statement audit and other contacts with the Department. Examples include, but are not limited to, controls over cash and trial balance account reconciliations; duplicate payments; and interim financial statement reporting. These reviews will provide a more in-depth review than that obtained in the annual audit of the financial statements.

Anticipated Objectives

Identify known or potential areas of control weaknesses, conduct reviews, and provide management with timely recommendations to improve controls over selected areas in order to improve the Department's financial management.

Student Financial Assistance Annual Financial Statement Audit (1)

The 1998 Higher Education Act Amendments established the Office of Student Financial Assistance (SFA) as a performance-based organization responsible for managing the operational functions supporting the programs authorized under title IV of the Act. To fulfill its annual reporting requirements, SFA financial statements will be audited each year in compliance with the Government Management Reform Act. The Office of Inspector General (OIG) will oversee the annual audit by an independent public accountant who will perform the audit on behalf of the OIG.

Anticipated Objectives

1. Provide an opinion on whether the SFA financial statements are fairly presented in all material respects.
2. Report on internal controls that are intended to ensure that transactions are properly recorded to permit the preparation of reliable financial statements; maintain accountability for safeguarding of assets; and ensure that data supporting performance measures are properly recorded.
3. Report on compliance with laws and regulations that could have a direct and material effect on the financial statements.

Accounting for Drug Control Funds (2)

Section 705(d) of “The Office of National Drug Control Policy (ONDCP) Reauthorization Act of 1998” requires drug control agencies to provide annually a detailed accounting and authentication of all funds expended on National Drug Control Program activities. The accounting and authentication will be conducted in accordance with ONDCP circulars. Education’s (ED) Budget Service will prepare the accounting of drug control funds obligated by ED; the Office of Chief Financial Officer will provide written assertions about the information contained in the report; and the Office of Inspector General will perform procedures under the American Institute of Certified Public Accountants’ attestation standards.

Anticipated Objectives

Express a conclusion about the following management assertions:

1. The methodology used to calculate obligations of prior year budgetary resources, including the data, estimation methods, completeness and financial systems, is reasonable and accurate.
2. The methodology disclosed by ED was the methodology used to generate the required table of information.
3. The data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including ONDCP’s approval of reprogramming in excess of \$5 million.

GOVERNMENT PERFORMANCE AND RESULTS ACT

The Government Performance and Results Act of 1993 (GPRA or the Results Act) is the centerpiece of a statutory framework that Congress put in place to improve federal management and provide a greater focus on results. GPRA requires that federal agencies prepare a five-year strategic plan and annual performance plans beginning with fiscal year 1999. The Results Act also requires that federal agencies prepare performance reports. The first performance report on fiscal year 1999 is due March 2000. In addition, the Results Act requires federal agencies to design a framework for the verification and validation of performance indicators.

Data Accumulated and Reported by State Educational Agencies Used to Evaluate Department Programs (1)

In passing the Results Act, Congress emphasized that the usefulness of agencies' performance data for its decision making ultimately depends on the degree of confidence that Congress has in that data. Data needs to be reliable and valid.

We will conduct a series of audits and other work on major Education (ED) grant programs at the federal, state, and local educational agency levels.

Anticipated Objectives (Federal Level)

1. Determine if the Department uses data supplied by the states to manage, oversee, and evaluate federal education programs.
2. Determine if the Department has adequate controls to assure that the data supplied by the states on federal education programs are reliable and valid.

Anticipated Objective State Educational Agencies

1. Determine if the states have adequate controls to assure that data on federal education programs are reliable and valid.

Anticipated Objective Local Educational Agencies

1. Determine if the LEAs have adequate controls to assure that data on federal education programs are reliable and valid.

Internal Controls in the National Center for Education Statistics Data Systems (1)

The National Center for Education Statistics (NCES) is a division within the Office of Educational Research and Improvement. NCES is the primary federal entity for collecting, analyzing, and reporting education data in the U.S. and other nations.

The Hawkins-Stafford Education Improvement Amendments of 1988 (P.L. 100-297) established the National Cooperative Education Statistics System (Cooperative System), a joint program of NCES and the states. The goal of the Cooperative System is to improve the comparability, quality, and usefulness of data collected from states and other education entities on the condition of education in the nation. To help achieve this objective, the legislation directed the Commissioner of NCES to support the development and implementation of standards for education data collection, processing, analysis, and reporting.

Anticipated Objective

Determine if NCES has adequate internal controls over data systems that supply data the Department uses for program performance reports and the strategic plan.

Technical Assistance (1)

We participated in an advisory capacity in the development of Education's Strategic Plan and Annual Plan. We plan to continue an independent level of participation by providing the Department with feedback and technical assistance to ensure that the various Government Performance Results Act efforts undertaken meet the intent of the Results Act. We also plan to assist the Department in training managers and staff about the importance of reliable and valid data.

Anticipated Objectives

1. Work with the Department to review controls over performance reporting.
2. Assist the Secretary's Planning and Evaluation Staff and Budget Service with its training for managers and staff throughout the Department about the importance of reliable and valid data.
3. Review and provide comments on the Department's Annual Performance Report.

DEPARTMENT OPERATIONS

Qui Tam Litigation (2)

Pursuant to the *qui tam* provisions of the False Claims Act, 31 U.S.C. § 3729 *et seq.*, a private individual is permitted to sue other private entities which have submitted false claims to the federal government. The individual files the lawsuit on behalf of the United States and may recover fifteen to twenty percent of any settlement or judgment obtained on the case, depending on the extent of participation by the Department of Justice. Many *qui tam* lawsuits concern programs administered by federal departments and agencies, including the Department of Education.

If the *qui tam* complaint concerns a program at the Department of Education, the Department of Justice provides a copy of the complaint and statement of material evidence and information to the Department's Office of General Counsel and the OIG. The OIG must determine whether there are any audits or investigations concerning the allegations addressed in the *qui tam* complaint. In addition, a determination must be

made whether any Department funds are implicated in the allegations, as well as the merit of the allegations. These determinations must be accomplished quickly to allow the Department of Justice to make its intervention decision within the sixty-day deadline.

Anticipated Objective

Assist the Department's Office of General Counsel and the Department of Justice in evaluating the merit of *qui tam* complaints that concern Department of Education programs and operations.

Education's Waiver Process and Education-Flex Monitoring and Reporting (I)

States and school districts may secure significantly increased flexibility in how they use federal education funds to help children reach challenging academic standards through waivers under the Elementary and Secondary Education Act, the Carl D. Perkins Vocational and the Applied Technology Education Act, Goals 2000, and others. Some provisions such as civil rights, public health and safety, and some other requirements cannot be waived.

The Education Flexibility Partnership Act of 1999 permits the Secretary to authorize states to waive many statutory or regulatory requirements. Each state participating in the ED-Flex program is required to monitor annually the activities of local education agencies and schools receiving waivers. The states must also submit annual reports on the results of such oversight and the impact of the waivers on student performance. According to the statute, the state program managers must provide an assurance that the data reported are "reliable, complete and accurate" or provide a plan for improving the data.

Anticipated Objectives

ED Waiver Process

1. Evaluate the Department's waiver review process.
2. Determine which compliance requirements drew the most waiver requests, and then determine whether the nature and significance of the compliance requirements waived indicate a need to recommend legislative change in affected programs.
3. Determine whether the applications provide a clear method for assessing the waiver's success.

ED-Flex Waiver Program

1. Determine compliance with the oversight and reporting requirements in the Education Flexibility Partnership Act of 1999.

Office of Chief Financial Officer Audit Tracking and Resolution (1)

Currently, Single Audit reports are received at the Single Audit Clearinghouse (SAC). The SAC clerical staff perform a completeness check and forward the reports to the Office of Chief Financial Officer (OCFO). Once the reports are received, the OCFO is responsible for ensuring that: (1) all required annual financial statement and compliance audit reports are submitted when due; (2) findings are coded correctly; and (3) reports requiring resolution are resolved timely; and final audit determinations are complete, consistent, and relevant considering the findings and applicable statutes and regulations.

Anticipated Objective

Determine if the OCFO is resolving Single Audit reports in accordance with Office of Management and Budget Circular No. A-133.

Clearance Process for Contractor Employees (1)

A recent security review involving fourteen major systems disclosed that Education (ED) utilizes hundreds of contractor employees to service various contracts for these systems. Based on our security review, we noted inconsistent security clearances and background screenings for contractor employees. The Principal Offices must ensure all contract personnel are appropriately screened. These individuals must be screened commensurate with the risk and magnitude of the harm they could cause.

Anticipated Objectives

1. Evaluate the adequacy of ED's processes for ensuring that contractor personnel have proper security clearances.
2. Assess the overall efficiency of ED's current clearance process as required by the Office of Personnel Management.

Internal Reviews, Analyses, Inspections, and Other Services (1)

The Office of Inspector General (OIG) will perform internal reviews, analyses, inspections, and other types of services to identify needed improvements in the delivery of selected Departmental operations, functions, support services, and activities. These OIG activities will highlight and identify opportunities for resources to be used more

efficiently, as well as to improve the delivery of administrative and programmatic activities and operations in ways to promote internal customer satisfaction. This will be accomplished by the analysis and evaluation of existing data, work processes, policy and procedures, projects, or operations to quickly offer solutions and remediation, as needed. The work results in this area will support the attainment of the Department's goal to become a high performance organization.

GRANTS AND CONTRACTS

Our overall objective is to provide services to the Department related to its responsibility to administer grants and contracts. Our primary focus is to perform reviews designed to assist the Department in evaluating its effectiveness in fulfilling its oversight responsibilities.

Contract Audit Services Preaward, Interim, Indirect Cost, and Closeout (2)

Education's (ED) Office of the Chief Financial Officer (OCFO) has a need for audit or other services related to OCFO's responsibility to administer ED's contracts. These needs include four work areas.

- Preaward - to provide field pricing support and other information prior to awarding a contract.
- Interim - to provide support to OCFO during the life of a contract.
- Closeout – to provide audit or other services as needed by the OCFO so that it can close out a contract.
- Indirect Cost - to resolve issues relating to ED's role as a cognizant agency for certain entities in approving indirect cost rates.

Anticipated Objective

We will define the objectives and the scope of reviews on a case-by-case basis to conform to OCFO needs.

Discretionary Grant Monitoring Process (1)

We will perform a review of the process that various program offices use to monitor grantees. We will focus on how program offices identify high-risk grantees and the process used for monitoring those high-risk grantees, including how they select grantees

for site visits. We will perform an analysis of the process and information available to select a number of grantees for individual entity audits.

Anticipated Objectives

1. Evaluate the Department's discretionary grant-monitoring process for identifying and monitoring high-risk grantees.
2. Identify high-risk grantees for the purpose of performing compliance and incurred-cost audits of selected high-risk grantees.

Contract-Monitoring Process (1)

We will perform a review of the process the Department uses to monitor contracts. We will focus on how the Department identifies high-risk contracts and the process it uses for monitoring those high-risk contracts. We will perform an analysis of the process and the information available to select a number of contracts for individual entity audits.

Anticipated Objectives

1. Evaluate the Department's contract-monitoring process for identifying and monitoring high-risk contracts.
2. Identify high-risk contracts for the purpose of performing compliance and incurred-cost audits of selected high-risk contracts.

High-Risk Grantees (2)

Periodically, the Department asks the Office of Inspector General (OIG) to audit or investigate grantees that the program office has identified for possible fraud, waste, or abuse of federal funds. In addition, the OIG receives hotline calls alleging fraud or misuse of federal funds.

Anticipated Objective

Determined on a case-by-case basis.

Expanded Discretionary Grant Recipient Authority Under Education Department General Administrative Regulations (1)

In 1994, the Department published a revised Part 74 in the Education Department General Administrative Regulations (EDGAR). The new regulations adopted provisions contained in the revised Office of Management and Budget Circular A-110, "Uniform

Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations.” Section 74.25 of EDGAR significantly expands discretionary grant-recipient authority to undertake specific administrative actions relating to grants and cooperative agreements without prior approval of Education officials. The section permits grantees to (1) extend the grant project period for up to one year without prior approval (with certain exceptions), and (2) to carry funds over from one budget period to the next.

Anticipated Objective

Determine the impact of the expanded EDGAR authority on discretionary-fund accountability.

Federal and State Monitoring of Formula Grants (1)

For the past several years, Education (ED) has been evaluating whether providing technical assistance or employing strict compliance monitoring techniques was the most effective way of achieving the goal of improving the delivery of program services. ED appears to be moving toward providing a balance between technical assistance and compliance monitoring activities in carrying out oversight responsibilities. The Office of Inspector General raised oversight issues in its Elementary and Secondary Education Act Perspective Paper that we issued in February 1999.

Anticipated Objectives

1. Determine if ED and state education agencies are adequately monitoring elementary and secondary formula grant programs for compliance with appropriate laws and regulations.
2. Determine which compliance requirements are being given priority in monitoring at the federal and state levels.

Performance-Based Contracting (1)

With the passage of the Government Performance and Results Act in 1993, many federal agencies made plans to move to performance-based contracting. The Office of Federal Procurement Policy issued guidance on best practices for performance-based service contracting in October 1998. In its 1998-2002 Strategic Plan, ED committed to using performance-based contracting as one of its core strategies to ensure financial integrity in the management of its programs and services.

Anticipated Objectives

1. Assess ED's use of performance-based contracting in non-federal financial aid programs.
2. Determine the adequacy of ED's contractor-performance monitoring.

COOPERATIVE AUDIT RESOLUTION AND OVERSIGHT INITIATIVE

The Elementary and Secondary Education Act (ESEA), Goals 2000, and School-to-Work Opportunities Act (STW) introduced greater flexibility and autonomy for participants in the Department's programs. All state and many local education agencies will be undergoing Single Audits of their federal grants under ESEA, Goals 2000, and STW.

Cooperative Audit Resolution And Oversight Initiative Activities (1)

The Cooperative Audit Resolution and Oversight Initiative (CAROI) was designed to help the Department meet the challenges which new legislation and the Department's Strategic Plan presented for administering and overseeing more effective programs.

Anticipated Objective

The Office of Inspector General will participate as a member of ED's CAROI team in accordance with the appropriate role of the Office of Inspector General.

Washington State Single Audit Pilot (1)

The 1996 Single Audit Act Amendments provide the opportunity for states, with the approval of Office of Management and Budget (OMB), to initiate pilot projects to test alternative methods for achieving the Act's purposes. The Washington State Education System Single Audit Pilot is the first pilot approved under this provision. The Washington State Education System consists of three groups that work in unison to fulfill both federal and state goals. These groups include the Office of Public Instruction, nine Educational Service Districts, and 296 local school districts. In the past, each component of this system was audited separately. The pilot coordinates the audit of the education system as one entity. Over the past year, the Office of Inspector General and other Education offices have worked with OMB, the Department of Health and Human Services, the Department of Agriculture, and the Department of Labor, as well as with the Washington State Auditor's Office on this pilot proposal. On May 7, 1999, OMB

approved the pilot for a maximum of four years beginning with the audit for the fiscal year ended August 31, 1998. We will provide Washington with technical assistance throughout the pilot and will perform a quality control review during the pilot period.

Anticipated Objectives

1. Provide technical assistance to the Washington State Auditor's Office throughout the pilot period.
2. Perform a quality control review on the Washington State Single Audit during the pilot period.

NON-FEDERAL AUDIT QUALITY

We will continue to fulfill our statutory responsibility to oversee the quality of audit work performed by non-federal auditors for whom the Department relies. In doing so we will

1. develop guidance to assure that audits performed by non-federal auditors are carried out in accordance with Government Auditing Standards;
2. provide training and technical assistance to non-federal auditors on Department of Education program audit requirements;
3. make referrals to state licensing boards and professional organizations and initiate suspension and debarment actions, as appropriate;
4. conduct a program of more than 100 quality control reviews of non-federal audits of proprietary schools and servicers, lenders and servicers, guaranty agencies and servicers, and auditors conducting single audits;
5. conduct special projects and/or studies designed to improve the quality of non-federal audits;
6. appropriately coordinate with and assist ED's Office of Chief Financial Officer and program offices with respect to non-federal audit quality issues; and
7. carry out assigned cognizant audit agency responsibilities.